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TAGS: ENRG EPET ECON BL
SUBJECT: PETROBRAS TALKS WITH GOB

¶1. (SBU) Summary: Petrobras, the largest player in the Bolivian hydrocarbons industry, had its first meeting with the Bolivian government on January 31 to begin discussing a new relationship. According to a Petrobras official, Arturo Castanos, the GOB representatives were cordial, but they only discussed the negotiation process and did not touch on complex issues such as transportation tariffs, contract migration, and forming a partnership with YPFB, the Bolivian state oil company, as reported in the press. Petrobras hopes to sign a Memorandum of Understanding about the negotiation process with the GOB in February and begin formal negotiations in March. Petrobras is concerned about Venezuela's influence on YPFB. The press reported that the GOB will nationalize two refineries owned by Petrobras. According to Castanos, the GOB has not yet made a purchase offer for the refineries, but Petrobras is willing to sell if the price is right. Castanos explained that there is little room for GOB negotiation on gas prices with Brazil. End summary.

Petrobras Meets with GOB
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¶2. (SBU) On January 31, Petrobras representatives, including Arturo Castanos, met with the Bolivian Hydrocarbons Minister, Andres Soliz Rada, and the head of YPFB, Jorge Alvarado, to discuss how to move forward on politically-sensitive hydrocarbons issues. Castanos told Econoffs on February 1 that the meeting was cordial and that Soliz Rada, surprisingly, appeared rather open and reasonable. According to Castanos, the only agreement reached in the meeting was to meet again to draft a Memorandum of Understanding in February and begin serious talks in March. He added that although Petrobras is vitally interested in transportation tariff regulations and contract migration questions, these topics were not raised. The press reported on February 1 that Petrobras, which is involved in the entire hydrocarbons productive chain from exploration to distribution, wants to form a 50% partnership with YPFB in all of the productive areas; however, Castanos said that no such idea was discussed in the meeting and would not be of interest to Petrobras.

## Venezuelan Woes

¶3. (SBU) Castanos expressed several worries about the state of Bolivia in general, and in particular about Venezuelan influence. He cited the recent opening of a PDVSA (Venezuelan state oil company) office with several PDVSA employees in La Paz, Venezuela's offer to barter Venezuelan diesel for Bolivian food, and YPFB head Jorge Alvarado's strong ties to Venezuela. Castanos explained that Petrobras does not have a good relationship with PDVSA and would see increased PDVSA operations here as a "thorn in its side". He added that although YPFB's Alvarado would be the logical choice for interlocutor, he would rather negotiate with Minister Soliz Rada due to the fact that Alvarado spent several years living in Venezuela and might be susceptible to PDVSA influence.

## Petrobras Willing to Sell Refineries If. . .

¶4. (SBU) Castanos explained that Petrobras purchased two refineries from the Bolivian government for US$ 105 million in 2000 and has had problems ever since. In 2000, the refineries had a profit margin of US$ 6 per barrel, but by 2003, thanks to the GOB's fuel price manipulations, the margin was negative. Castanos stated that Petrobras is happy to sell the refineries to the GOB if it will pay the full value of the refineries. Petrobras would only consider a partnership with the GOB if Petrobras continued to operate the refineries. To date, Petrobras has not received an offer from the GOB (despite press reports that the GOB plans to nationalize the two refineries), and they have not had serious discussions on the topic.

## Bolivia's Gas Price Illusions

¶5. (SBU) GOB representatives have stated that they intend to increase the price of gas sold to Brazil. Brazil and Bolivia are partners to a Gas Supply Agreement (GSA) that is in effect until 2019. The agreement contains a price-setting formula, which is based on the amount of gas sold and a weighted basket of world fuel prices. According to the contract, every year the parties have the right to request price-revision negotiations, and every five years the parties must conduct a thorough price negotiation. Brazil had planned to request negotiations last year to seek to lower the price, but did not push the process forward given the political climate in Bolivia. Brazil is currently paying US$ 3.25 per MCF, which comes to almost US$ 4.75 including transportation costs to Sao Paulo. Castanos explained that, contrary to public perception in Bolivia, Brazil does have alternatives to Bolivian gas, i.e., developing its own fields, lowering gas subsidies, and developing biodiesel and nuclear energy, and would not agree to pay much more than US$ 4 to 5 per MCF. Castanos lamented that the GOB does not appear to understand that gas prices are regional (because of the difficulty of transporting it, gas is not a commodity with a common world price) and that prices in South America cannot be compared to prices in Europe or the United States.

¶6. (SBU) Comment: Although he emphasized that Petrobras would only accept a favorable commercial outcome in future negotiations, Castanos was clear that the company is willing to arrive at a comprehensive deal with the GOB, even if it means sacrificing some of their profit margin. End comment.
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